HOUSE BUDGET REPUBLICANS

Budget Digest

Ranking Member Steve Womack

May 7, 2019

Modern Monetary Theory

As our nation's $22 trillion debt continues to grow,[1] some lawmakers and economists are turning to Modern Monetary Theory (MMT) to answer objections to the cost of certain multi-trillion-dollar proposals. The economic principle behind MMT suggests that countries with their own currency (including the United States) do not need to worry about running deficits – or spending more money than they bring in through revenue – because they can print more money to pay their financial obligations.[2] As one proponent of MMT explained, *"MMT starts with a really simple observation and that is that the U.S. dollar is a simple public monopoly. [The U.S.] can never run out of money. It cannot face a solvency problem … in order to spend, the government doesn't have to do what a household or a private business has to do: find the money. The government can simply spend the money."*[3]

Inflation and MMT. MMT proponents and opponents alike acknowledge that printing money faster than the output of available goods leads to higher inflation rates – a move that would weaken the nation's economy, diminishing the value of the dollar, increasing the prices of basic goods and services, and reducing the incentive to save and invest.

MMT Does Not Avoid the Need to Pay for Spending. MMT advocates propose raising taxes as a tool to counteract the effects of inflation. In other words, **MMT still requires raising taxes to pay for spending increases.** Opponents of MMT worry that relying on Congress to control inflation through tax policy is likely to prove less successful than relying on monetary policy through the Federal Reserve, which can be implemented more swiftly.

What Economists and the American Public Are Saying. When more than forty leading economists were asked whether they agreed with the underlying tenets of MMT by the University of Chicago's Booth School of Business, 100 percent of respondents disagreed or strongly disagreed with the economic principle.[4] Meanwhile, a recent poll found that a majority of Americans believe reducing federal budget deficits should be an "extremely important" priority for Congress.[5]

How the Debt Threatens Our Strong Economy. The U.S. economic recovery continues to gain strength. The April 2019 jobs report shows the U.S. unemployment rate fell to 3.6 percent, the lowest level in 49 years.[6] Economic growth for calendar year 2018 was the highest since 2005.[7] Robust growth carried over to the first quarter of 2019, which expanded by 3.2 percent.[8] Failure to address the debt could unravel this strong economic progress, as the Congressional Budget Office has warned, noting the "negative consequences, both for the economy and for the federal budget."[9] Rather than looking for ways to subsidize costly programs that put our economy at risk, policymakers should instead focus on ways to rein in federal spending and put our nation on a fiscally sustainable path.

---

1 https://republicans-budget.house.gov/budget-digest/budget-digest-the-nations-federal-debt/
2 https://www.mercatus.org/publications/monetary-theory/how-reliable-modern-monetary-theory-guide-policy
3 https://www.cnbc.com/2019/03/01/bernie-sanders-economic-advisor-stephanie-kelton-on-mmt-and-2020-race.html
4 http://www.igmchicago.org/surveys/modern-monetary-theory
5 https://www.politico.com/f/?id=00000168-1450-da94-ad6d-1ffa86630001
6 https://www.cnbc.com/2019/05/03/nonfarm-payrolls-april-2019.html
7 https://www.whitehouse.gov/articles/2018-banner-year-u-s-economy/
8 https://www.cnbc.com/2019/04/26/gdp-q1-2019-first-read.html
9 https://www.cbo.gov/system/files/2019-03/54918-Outlook-3.pdf